A. OVERVIEW

- ILECs provide service to rural areas of the state that have a low population density – approximately, on the average, 4 lines per square mile, and high costs to provide basic service - $120/line per month or approximately $1500/line annually.

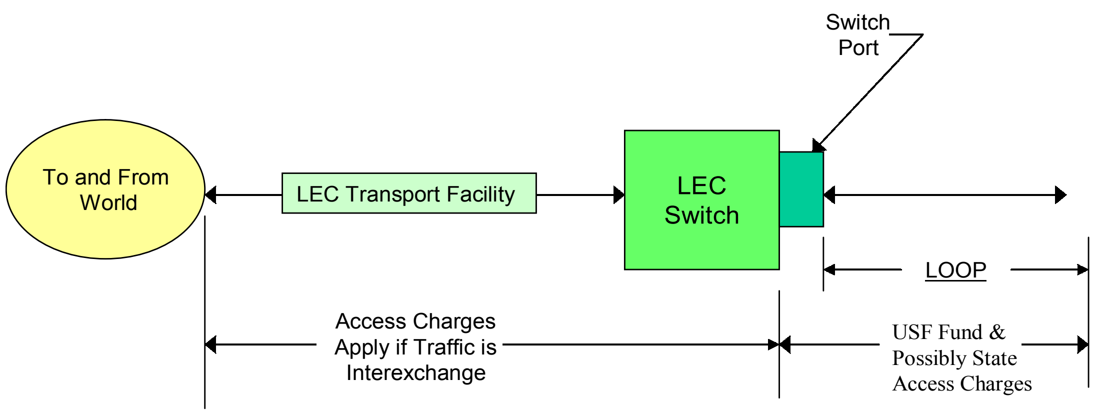
- Additional expenditures of between $50/line and $60/line per month are required to provide advanced services such as DSL.

- As required by the Communications Act[1], ILECs maintain a quality, universally available network with services priced at reasonable and affordable rates comparable to those in urban areas and provide advanced technologies and services.

- The ILEC network is used by Service Providers (Wireless, IXC, CLEC, etc.) to originate and/or terminate their customer's calls.

Figure 1

Access facilities used by IXCs, RBOCs, ILECs, CLECs, Wireless, Etc.



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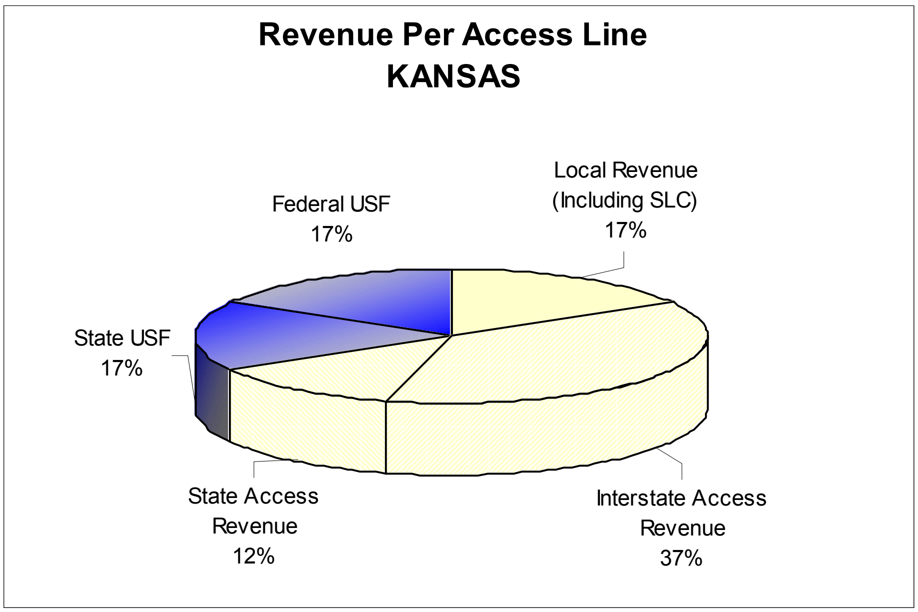
[1] Communications Act of 1934, as amended by the Telecommunications Act of 1996.

- Because of the high cost to provide rural service, maintenance of quality services at reasonable and affordable rates is only possible if (a) IXCs, Wireless providers, CLECs, etc. pay for their use of the ILECs network to originate and/or terminate their customer's calls, and (b) ILECs receive universal service funding.

Figure 2



Accounts	Monthly Revenue Per Access Line		
Local Revenue (Including SLC)	**$**	**20.00**	**17%**
Interstate Access Revenue	**$**	**45.00**	**37%**
State Access Revenue	**$**	**15.00**	**12%**
State USF	**$**	**20.00**	**17%**
Federal USF	**$**	**20.00**	**17%**
Total	**$**	**120.00**	**100%**

B. ISSUES AFFECTING THE SUSTAINABILITY OF THESE REVENUES

1. Network Access Revenues At Risk (49% of ILEC revenues - $60/line/month):

a) Basis of intercarrier compensation - The Service Provider (IXC, Wireless Provider, etc.) charges the customer for the service it provides and uses those revenues to recover its costs and to pay all carriers for the use of their facilities utilized by the service provider to complete its customer's calls.

b) In view of their dependence on intercarrier compensation revenues, the rural ILECs are concerned that in a number of proceedings the FCC is allowing, or may allow wireless service and services provided by IXCs and CLECs to use the ILEC network for free (bill-and-keep) or for a reduced rate through arbitrage of access rates.

- Possible adoption of bill-and-keep - Complete loss of access revenue and any intercarrier compensation for use of network facilities (FCC Docket 01-92).

- Arbitrage of access through expansion of the local calling area by imposition of an MTA only for CMRS traffic - loss of access revenue; requirement to pay reciprocal compensation (Sprint; T Mobile; US LEC petitions – FCC Docket 01-92)

- Arbitrage of access through virtual NPA-NXX arrangements which inappropriately allow Wireless providers and CLECs to require ILECs to expand local calling areas - loss of access revenue; requirement to pay reciprocal compensation – (Sprint petition – FCC Docket 01-92)

- Potential misapplication of ESP/ISP Exemption to allow VOIP Traffic to avoid or arbitrage access rates - loss of access; possibly pay reciprocal compensation (AT&T petition – FCC Docket 02-361)

c) Bill-and-keep is only appropriate when traffic is roughly balanced between service providers (i.e. 50/50)[2] and termination costs are approximately the same.

- Rural ILEC traffic is not roughly balanced with wireless carrier or CLEC use of Rural ILEC's networks.

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[2] For every minute originated by a CMRS provider's customer and terminated by an ILEC, a minute is originated by an ILEC customer and terminated by a CMRS provider.

- The balance of traffic with these carriers is, on the average, between 75/25 and 90/10[3] (depending on the ILEC and Wireless provider) and wireline and wireless termination costs are significantly different. Therefore, there is no basis for bill-and-keep.

- Likewise, bill-and-keep is inappropriate for IXC services because IXCs use ILEC facilities to originate and terminate their customer's traffic while ILECs do not use IXC facilities.

e) FCC should not allow or encourage IXC, CLEC or Wireless Provider attempts to violate lawfully approved tariffs through access rate arbitrage.

- Calls terminated beyond the ILECs local calling area are IXC interexchange calls that are subject to originating and terminating access charges.

- IXCs, Wireless providers and CLECs are attempting to avoid access charges by making it appear the calls are local (originate and terminate in the same local calling area).

- The FCC must enforce its end-to-end jurisdictional calling rules and the access tariffs that it approved that apply access charges to calls that are interexchange on an end-to-end basis.

f) Result of allowing bill-and-keep or access rate arbitrage for rural areas served by ILECs is:

- Rural ILEC – significant access revenue losses and increased costs. ILECs forced to recover losses by increasing customer rates or if that is not possible, curtailing investment in advanced services and basic service and/or curtailing service quality.

- Customer – higher rates, unavailability of access to advanced services, poorer service quality.

- CLECs, Wireless Providers – Artificially lower costs leading to uneconomic choices to enter "thin" rural markets - artificially stimulate competition. Uneconomic choices to enter rural markets may lead to further bankruptcies.

- IXCs, – Windfall to bottom-line from inappropriate elimination of access charges or arbitrage of access rates (allowing IXCs to pay local rate compensation rather than interexchange access rate compensation.

[3] For every nine minutes originated by a CMRS providers customer and terminated by an ILEC, one minute is originated by an ILEC customer and terminated by a CMRS provider.

2. **Universal Service Revenues At Risk (34% of ILEC revenues - $40/line/month):**

(A) An Insufficient Public Interest Test Is Applied To Determine If Additional ETCs Are Appropriate In Rural ILEC Areas.

- No application of public interest standard to determine the effect of additional rural ETCs on ILECs, impacts to fund/s or their customers.
- No cost/benefit analysis.
- Wireless Providers are and have been doing business in the rural LEC areas without benefit of ETC status – no consideration has been given to why a new Wireless Provider should be given ETC status when the area is already being served by a Wireless provider.
- Attachment – Specific list of public interest questions.

(B) Asymmetrical Rules For Additional ETCs:

- No requirement to demonstrate a need for support - support based on LEC costs, not prospective ETC's own costs.
- No requirement for reasonable and affordable rate or no free local usage requirement.
- No quality of service or COLR requirement.
- No requirement to provide equal access (see Tab 5).

(C) Result of These Policies:

- Increase fund size and cause pressure to cap/reduce funding – FCC contribution proceeding (Docket No. 96-45).
- Possible loss of funding – FCC portability proceeding (Docket No. 96-45).
- USF revenues lost by ILECs due to asymmetrical rules may cause increases in customer rates or if that is not possible, curtailment of investment in advanced services and basic service and could limit the future economic viability of the ILEC.

- The ultimate result of the application of asymmetric rules in "thin" rural areas is that an ILEC may be forced to withdraw from provision of COLR service and could be forced to cease providing service.

3. Broadband Deregulation:

- Rural LECs have been at the forefront of investing in facilities and deploying high-speed Internet services or broadband services to consumers at affordable rates.

- Currently, rural carriers provide access to high-speed Internet services at affordable rates - approximately $30.00 per month.

- These reasonable rates have been facilitated by existing regulatory mechanisms that support rural LEC high network costs[4] and provide the ability to rate average with many other rural LECs.[5]

- In order to insure that rural broadband deployment continues with reasonable rate levels, these regulatory mechanisms for rural LECs must be continued as part of any consideration of broadband deregulation in areas served by larger carriers.

[4] Federal and State universal service funds.
[5] The National Exchange Carrier (NECA) pool.